2004

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Risk Management Agency

Raleigh Regional Office
"Serving the Mid-Atlantic and Northeastern States"

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AGR

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ADJUSTED GROSS REVENUE

PILOT PROGRAM

Non-traditional Risk Management Tool

The USDA Risk Management Agency (RMA) has partnered with grower associations, cooperative extension specialists, and insurance companies to develop a whole farm insurance program called **Adjusted Gross Revenue (AGR)**. The AGR plan:

① Provides insurance coverage for multiple agricultural commodities under one insurance product;

② Uses income tax information from the producer's agricultural operations as a basis to provide a level of guaranteed revenue for the insurance period;

③ Creates an AGR farm report that will be used to determine coverage eligibility; and

④ Reinforces program credibility by using IRS forms and regulations to ensure compliance.

AGR Protection

AGR provides protection against revenue loss due to unavoidable natural disasters or market fluctuations. Covered farm revenue includes income from most crops and agricultural commodities.

A limited amount of income (not to exceed 35%) from livestock, animal products, and aquaculture products raised in a controlled environment may also be covered. The value of any crop production fed to livestock will be counted as livestock income.

Availability

AGR is available in the following mid-Atlantic and northeastern states for 2004*:

Delaware: Kent, New Castle, Sussex

Maryland: Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Cecil, Charles, Dorchester, Frederick, Harford, Howard, Kent, Montgomery, Prince George's, Queen Anne's, St. Mary's, Somerset, Talbot, Wicomico, and Worcester counties; Baltimore city

New England: All counties in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont

New Jersey: All counties

New York: Cayuga, Chautauqua, Erie, Genesee, Monroe, Niagara, Onondaga, Ontario, Orange, Orleans, Oswego, Seneca, Suffolk, Ulster, Wayne, and Yates counties

Pennsylvania: Berks, Carbon, Columbia, Crawford, Erie, Fayette, Lackawanna, Lancaster, Lehigh, Monroe, Northampton, Schuylkill, Westmoreland, and York counties

Virginia: Accomack, Caroline, Charles City, Chesterfield, Essex, Gloucester, Hanover, Henrico, Isle of Wight, James City, King and Queen, King George, King William, Lancaster, Mathews, Middlesex, New Kent, Northampton, Northumberland, Prince George, Richmond, Southampton, Surry, Sussex, Westmoreland, and York counties; Chesapeake, Colonial Heights, Franklin, Hampton, Hopewell, Newport News, Norfolk, Petersburg, Poquoson, Portsmouth, Richmond, Suffolk, Virginia Beach, and Williamsburg cities.

* A new limited-liability alternative plan called AGR-Lite is also available for 2004 in several northeastern states and counties. See the AGR-Lite fact sheet for more information.

AGR Time-Line

Sales Closing Date: January 31, 2004 (This is also the cancellation date for existing policies.)

Beginning of Insurance Period: **January 1, 2004** for calendar year tax filers. (For the first year, coverage will not begin until at least ten (10) days after the company receives a properly completed application.)

Insurance Year: The Calendar or Fiscal Year that corresponds to the producer's IRS tax year.

Claims: Claims will be settled after filing with the IRS.

Shared Interest

AGR insurance is provided against a revenue loss *ONLY for the person named on the AGR application* and will not extend to any other person having a share in the operation. A separate contract will be required for each qualifying person.

AGR Producer Eligibility

• An AGR applicant's agricultural operation must be located in one of the pilot counties listed above, but may include some income from contiguous non-pilot counties;

• Insured must have filed federal income tax returns under the same tax entity for the past five years and the insurance year (unless at least 90 percent of a previous farming operation was transferred to the current tax entity);

- If more than 50 percent of expected income will be derived from a crop or combination of crops currently insurable under existing plans (except for pilot programs), individual policies on those crops must be purchased if available;
- No more than 35 percent of expected allowable income can be from animals or animal products;
- An administrative fee of $30 will be charged in addition to the premium.

NOTE*: AGR complements other insurance plans by coordinating the protection and benefits with your other plans. If you are required to purchase other crop insurance policies in addition to AGR, your AGR base premium will be reduced accordingly, but will not be less than 50% of the full, original AGR premium.*

Causes of Loss and Exclusions

Coverage is provided against loss of farm revenue due to unavoidable natural disaster or market fluctuations occurring during the insurance year. Payments will be not be made for losses resulting from negligence, mismanagement, or wrongdoing by the insured or members of the insured's family; failure to follow recognized good farming practices; abandonment or other excluded causes as listed in the AGR insurance policy.

Amount of Coverage

The applicant selects a coverage level (65, 75, or 80%) and a payment rate (75 or 90%). The dollar guarantee is equal to AGR amount X coverage level X payment rate.

Loss Payment

A loss payment is made whenever adjusted gross income for the insured year falls below the AGR times the coverage level. Once a loss is triggered, the producer is paid an indemnity equal to the revenue shortfall times a payment rate of either 75% or 90%, as selected by the producer before the policy went into effect

65% Coverage Level

75% or 90% Payment Rate

(For the 90% payment rate you must produce a minimum of two crops or commodities, with each contributing at least a certain percentage of total expected allowable income.)

75% Coverage Level

75% or 90% Payment Rate

(You must produce a minimum of two crops or commodities, each contributing at least a certain percentage of total expected allowable income.)

80% Coverage Level

75% or 90% Payment Rate

(You must produce a minimum of four crops or commodities, each contributing at least a certain percentage of total expected allowable income.)

Loss Payment Example

Assume AGR Income:

Year	Dollar Amount
1998	$91,500
1999	$119,000
2000	$89,000
2001	$90,000
2002	$85,000
	$474,500
AGR average =	**$94,900**

Assume AGR Expenses:

Year	Dollar Amount
1998	$66,500
1999	$75,200
2000	$57,000
2001	$59,100
2002	$59,800
	$317,600
Average Expenses =	**$63,520**

Let's assume the insured's adjusted gross income for the insurance year is **$21,000** due to drought. At the 80% coverage level with a payment rate of 90%, the insured's indemnity would be calculated as follows:

Average AGR **$94,900** times 80% coverage level equals a trigger level of **$75,920.** Subtract **$21,000** revenue from $75,920 for a shortfall of **$54,920**. Multiply that by **90%** payment rate for an indemnity payment of **$49,428**, less premium. (**75%** payment rate results in indemnity of **$41,190**.)

NOTE: *If the insured's allowable expenses for the insurance year are below 70% of the average expenses (i.e., below $44,464), the approved AGR will be reduced accordingly.*

Disclaimer

This fact sheet points out only certain features of the AGR plan and is not comprehensive. The information presented here neither modifies nor replaces terms and conditions of the basic policy, the AGR provisions, or county actuarial documents. Contact a crop insurance agent for further details (see below).

Where to Purchase AGR

AGR insurance policies are available through private crop insurance agents. A list of agents is available at your local USDA Farm Service Agency office or you may visit the RMA web site at:

www.rma.usda.gov

Additional Information

Questions may be addressed to:

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(This AGR fact sheet was originally created by Jo Lynne Seufer, Spokane Regional Office, RMA, USDA. It has been modified for the Raleigh Regional Office.)